
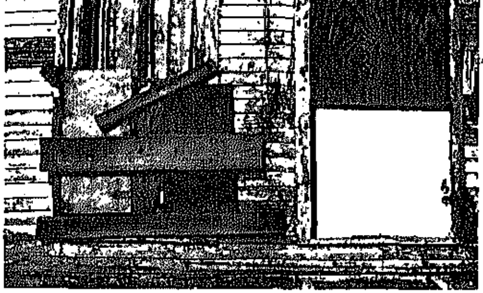







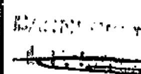

U.S. Department of Housing and
Urban Development

Community Planning and Development

Office of Urban Rehabilitation and
Community Reinvestment

Washington, D.C. 20410

December 1978

ighborhood revitalization is a high priority of the Department, and localities are monstrating creative methods in their use of HUD funds to support housing habilitation. It is our hope that local efforts will benefit from HUD's technical sistance activities.

ncerely,

bert C. Embry, Jr.
sistant Secretary

This first guidebook explains the operations of the Title I program. It describes the way Title I insurance is being used with CDBG funds to make home improvement loans affordable for lower income property owners. More detailed information on the Title I program requirements is contained in the "Title I Property Improvement Loan Operating Handbook," HUD Document number 4700.1.

The second guide, *FHA Title I Property Improvement Loans in Public Rehabilitation Programs. Case Studies*, offers a detailed study of the use of Title I by local governments, lenders, and State housing finance agencies in rehabilitation programs. The third guide, *Financial Leveraging in Community Development Rehabilitation*, provides a broader view of the use of public funds to generate commitments of private financing for housing rehabilitation.

Michael Ehrmann, Director of the Division of Rehabilitation Policy and Assistance, Office of Urban Rehabilitation and Community Reinvestment, has written these three documents. From 1971 to 1974, Mr. Ehrmann directed the Hoboken, New Jersey Municipal Home Improvement Project, where he developed the prototype program which combines public funds with Title I insured loans. As Deputy Director of the Housing Action Council in White Plains, New York from 1974 to 1978, he organized a county preservation program incorporating a $12 million commitment in low interest Title I loans from 30 lending institutions.

have been made under Title I, and today nearly $1 billion in loans are being made annually. Losses from loan defaults have averaged just over one percent.

Recently, the Title I program has become a useful instrument in the rehabilitation of housing in aging urban neighborhoods – a neglected credit market. A number of States and localities across the Nation are combining Title I insurance with funds from public sources to enable lower income owners in such areas to upgrade their housing.

These programs are using a variety of approaches. For example, grants from public funds may be used to reduce or subsidize interest payments, or to reduce the amount of principal that must be borrowed. All of the methods are designed to bring monthly payments of Title I insured loans down to a level that can be repaid by lower income property owners. This leveraging approach to meeting local needs has advantages for lenders, local public agencies, and borrowers.

Advantages for Lending Institutions

The Title I program sets up an insurance reserve for each institution making Title I loans and provides lenders with up to 90 percent reimbursement of any losses they may incur due to defaults. The loans can be processed according to normal credit standards and procedures of the lending institution, and there is a minimum of paperwork required by the Federal Government. The maximum interest rate on Title I loans is 12 percent, which permits a market return on insured credit to the lender.

Furthermore, public agencies using Title I insurance with publicly funded property improvement programs have provided staff to facilitate the lending process. The staff functions differ somewhat from program to program, but they usually include helping property owners to determine the repairs that should be made and to obtain bids from qualified contractors, preparing cost

Advantages for Public Agencies

Title I can be used as a leveraging tool in rehabilitation programs supported by Community Development Block Grants and other public funds. The 90 percent insurance coverage offered under Title I can be a significant incentive for program participation by lenders who have limited investments in the proposed target areas and fear that their involvement will be risky. By involving private resources in rehabilitation loans, the public funds are used merely to reduce repayment costs for lower income property owners. In this way, more loans can be made than would be possible if CDBG funds were used exclusively to finance rehabilitation costs. Further, public funds are freed for the improvement of public facilities in target neighborhoods.

Advantages for Property Owners

The combination of CDBG-Title I loan programs can make credit affordable to lower income property owners. They also help owners at the major stages of property improvement, from planning through execution of the job, to assure that the work is properly done at a competitive price.

In addition, the programs help to stabilize ownership in older neighborhoods. In recent years real estate interests have found such neighborhoods to be desirable for investment purposes. Deteriorated properties are purchased at a low price, rehabilitated, and resold. Such activities serve to stabilize neighborhood conditions and increase the value of ownership for existing residents.

of less. Unlike other Federal housing programs, HUD does not review individual loans at the time of approval, except when the amount of the loan exceeds $15,000. Such applications involve multiunit structures and must be sent to the local HUD area office for prior approval.

The lending institutions originate and service Title I loans from their own funds and collect all payments. HUD's role is to provide insurance against loan defaults. In return for lender payment of an insurance premium amounting to ½ percent of the net proceeds of each loan, the Federal Government establishes an "insurance reserve" for every participating lender. Financial institutions can draw on this reserve to defray 90 percent of any losses due to defaults.

Title I loans differ from other lending tools, particularly conventional and federally-insured mortgages. The property improvement loans cannot be used for the purchase of property, and refinancing of existing indebtedness is limited to cases where there are preexisting Title I obligations. Eligibility for Title I loans is not based on the appraised value of the property to be improved or mandated HUD standards. Rather, loan decisions are based on the credit-worthiness of applicants as determined by the lending institutions. Such standards primarily consider an applicant's ratio of outstanding indebtedness and/or housing costs (including the projected new obligation) to total income. Previous credit history, as ascertained through a credit check by the lender, is also an important factor in loan decisions.

Title I loans in excess of $7,500 must be secured by a recorded lien on the improved property. This security can fall in line of priority after existing encumbrances on the property, i.e., in a second or third position. Federal regulations pertaining to the lien do not mandate a formal property appraisal, and most participating lenders do not make such appraisals for Title I loans. A title search need not be done unless required by State law.

ticipation by four types of institutions:

1. Lenders already approved for Title I participation that have been granted "contracts of insurance" by HUD. These include banks and trust companies, mutual savings banks, savings and loan associations, credit unions, personal finance companies and mortgage and installment lending companies. The approved institutions remain indefinitely eligible for Title I participation unless their contracts have been cancelled for cause by HUD after a detailed investigation of problems in the lender's use of Title I. Financial institutions with contracts of insurance that have not processed Title I loans in recent years may reenter the program at any time.

2. Members of the Federal Reserve System, or the Federal Home Loan Bank System, and institutions whose deposits are insured by the Federal Deposit Insurance Corporation.

3. Any Federal, State, or municipal government agency that is empowered to conduct an installment lending operation.

4. Any other lending institution that meets requirements stated in the Title I Handbook.

Loan Categories

Four types of loans are insured under Title I. Two are for the improvement of existing structures (Class 1 loans) and two are for new construction (Class 2 loans).

Class 1(a) loans are for the repair, alteration, or improvement of a single-family dwelling or nonresidential structure. ("Family" is defined as one or more persons living, sleeping, cooking, and eating on the same premises and as occupants of one living unit.)

Class I(b) loans are for the repair, alteration, conversion, or improvement of a structure for use as a dwelling by two or more families.

use.

Title I loans may be either **direct** or **indirect.** A direct loan is applied for and disbursed to a property owner or a lessee, who then pays contractors for work on the structure. An indirect, or dealer loan, involves an intermediary (usually the home improvement contractor serving as general contractor on a job). The intermediary is a party to the initial application and contract for repair of the borrower's property. Dealer loans once constituted a major portion of Title I lending; but now borrowing by property owners or lessees is more common.

Eligible Borrowers

Property owners and lessees may apply for Title I loans, subject to the following conditions:

Class 1(a) loans are only for single-family dwellings or nonresidential structures. They may not involve principal amounts exclusive of any financing charges, in excess of $15,000.

Class 1(b) loans can be used for two-family or larger residential structures that are individually owned. (Corporations are not eligible.)

For lessees, the lease term must exceed the length of note maturity by at least six months. (Most loans to lessees involve nonresidential structures.)

lish a shorter repayment period on small loans, but this is a matter of individual policy.

Maximum Loans – The effective ceiling for Class 1(a) loans is $15,000. (Prior approval of HUD's Federal Housing Commissioner is required for loans in excess of this amount.) *Principal amounts of Class 1(b) loans* cannot be for more than $5,000 per dwelling unit, and up to $25,000 for five or more dwelling units. An individual owning several properties may obtain more than one loan to improve each property, as long as the maximum loan amount permitted for each property is not exceeded.

Eligible Improvements

Class 1 loans can be used only to finance alterations, repairs, and improvement of a completed structure. It must be presently occupied, formerly occupied, or damaged by deterioration, fire, or other casualty. The loans cannot be used to finance the completion of shell houses or other unfinished structures.

Eligible improvements that may be made closely correspond to the rehabilitation priorities established by local rehabilitation programs supported by CDBG funds. Specifically, the eligible improvements for Class 1 loans *include:*

- enlarging a structure;
- repairing or replacing plumbing and electrical systems;
- *improving heating systems, such as installation of* stoves, oil burners, or coal, gas, and electrical furnaces;
- painting and plastering;
- insulating, including installation of siding and awnings;
- installing new bathrooms, kitchens, living rooms, bedrooms, and closets (built-in kitchen equipment is eligible in residential structures if the borrower owns the property);
- constructing an attached building, such as a garage, for a completed house or other existing buildings, including apartment houses, hotels, office buildings, hospitals, orphanages, colleges, churches, manufacturing plants, and mobile homes,
- installing fire safety equipment; and
- installing solar energy systems and other energy-conserving improvements.

Mobile homes are eligible for the allowable improvements cited above, subject to certain conditions described in the Title I Handbook.

Ineligible Improvements

HUD has determined that certain types of improvements cannot be financed through Title I because they are luxury items, do not improve the basic livability of a dwelling, or are not a permanent part of the realty. Items that cannot be financed with a Title I loan include:

- barbeque pits
- bathhouses
- burglar alarms or burglar protection bars
- dumbwaiters
- demolition of structure, unless the purpose is to improve the existing structure remaining on the property
- farm or dairy equipment (except bulk milk tanks and milk coolers)
- equipment and machinery such as presses, drills, lathes, and similar items used in industrial or commercial establishments
- flower boxes
- greenhouses (unless commercial greenhouses)

levision antennas
nnis courts
ee surgery
lance or cornice boards
aterproofing of a structure by pumping or injecting a
stance into the earth near or under basements,
dations, or floors.

rance Coverage and Charges

establishes an insurance reserve account for each ng institution that participates in the Title I program. ach Title I loan, 10 percent of the net proceeds of oan is credited to the lender's insurance reserve. ns for loans approved for payment by HUD are paid this fund and are deducted from the reserve fund e particular lending institution.

e first five years after HUD issues a contract for ance to a lending institution, a lender's reserve is iminished except to pay out claims. After that, HUD ces the unused reserves of each financial institu- y 10 percent down to a minimum of $15,000, and nues to make this adjustment of reserves annually. ite this procedure, no volume lender in the history Title I program has failed to receive payment on s due to the unavailability of reserve funds.

charges lenders an insurance fee of ½ percent a of the net proceeds of each insured loan. No por- f this charge can be passed on, directly or in- tly, to the borrower if the interest on the loan is at 2 percent maximum.

the date of application for reimbursement up to a maxi- mum of nine months and 31 days. Legal fees for collec- tions are also reimbursable.

prospective Title I lenders.

Final determinations on the approval of insurance contracts are made by the Title I headquarters office in Washington, D.C. Determination is usually made within two months of initial application.

Processing Loan Applications

When a financial institution receives its insurance contract, it may begin processing individual loan applications. The basic Title I individual borrower's application must then be completed. Many lenders ask applicants to provide supplementary material, such as an income tax statement for the previous year or a certified profit and loss statement on a self-employed applicant. In addition, lenders may request contractor's estimates covering projected repairs, or a listing of materials if an owner is planning to do the work. Dealer loans require additional documentation, as described in the Title I Handbook.

Some Title I lenders who work with CDBG rehabilitation programs provide public agencies with verbal judgments about the likelihood of loan approval, based upon the borrower's income and the projected cost of repairs. However, formal credit determinations can only be made after applications have been submitted to the financial institutions.

Once a lender has approved an application for a Title I loan, usually within a week, the borrower is asked to sign a promissory note incorporating the value and terms of the loan and, where applicable, must agree to the placing of a lien on the property. The formats for notes and lien agreements are drawn up by the individual institutions.

Reporting Lending Activities

The Title I program is designed to minimize the paperwork that is required of financial institutions. Loan reporting requirements established by HUD call for a streamlined procedure that is consistent with normal lender practices for recording their lending transactions.

Financial institutions are required to report to HUD all new Title I loans, refinancing of existing obligations, an loan transfers. Such reports must be made within 31 days after the date of the note or the date upon which i was purchased from a dealer. HUD has prepared simple forms for reporting these activities. On new loans, financial institutions may use the 80-column punched tabulating cards they already may be using f their own internal record keeping.

insurance on the specific loan; this billing is usually the charge for one year and is payable within 25 days of the lender's receipt of the report. Additional charges are billed on the anniversary of the signing of the note. For loans that mature in 25 months or less, the entire insurance charge is billed and payable when the loan is approved.

Settlement of Claims

Speedy and sympathetic processing of claims for losses from lenders has been a critical element in the popularity of the Title I program. At the same time, the Federal Government is responsible for assuring that maximum efforts are exerted to obtain repayment from borrowers before tax dollars are spent to reimburse financial institutions. Thus, the Title I system for claim reimbursement protects both the lender and the public interest.

When lenders have prepared their requests for the reimbursement of claims, HUD reviews the cases and repays lenders. Most claims for losses are reimbursed within two months or less. However, a lender's failure to provide adequate documentation for a claim can substantially delay this process.

HUD does not require lenders to engage in litigation in their efforts to collect on defaulted Title I loans, and a specific list of required collection procedures for Title I loans has not been established. Nevertheless, HUD's investigation of claim requests requires evidence that lenders have made determined attempts to gain repayment of obligations.

HUD will not process a claim for reimbursement until a formal demand letter has been sent to the borrower indicating that a loan is in default and requesting full repayment. The claim is made on an official HUD form. In submitting claims to HUD for reimbursement, lenders

in kitchen appliances, and other items as described in the Title I Handbook).

When HUD receives the reimbursement application, it reviews the case and makes a determination. On loans where claims are to be paid, HUD computes the insured loss and a check from the U.S. Treasury is sent to the lender for the reimbursable amount.

Field Monitoring

HUD is not involved directly with lenders on a day-to-day basis in regard to individual Title I loans. HUD's Title I Financial Representatives visit each participating lender only periodically (usually every two to three years) to review credit practices, examine the Title I portfolio, and discuss any problems, particularly those regarding loan defaults. In between these visits, lenders can reach either the Regional Financial Representative or a Title I representative at the HUD Area Office when questions arise about program regulations or specific applications.

bines lending from the private sector with publicly-financed principal reduction payments that bring the effective interest rates to borrowers down to 3 percent. This program, funded in part by the State of New Jersey, introduced three new financing concepts to the field of housing rehabilitation. First, public funds are paid to program participants in a one-time grant which is computed to provide borrowers with an effective 3 percent interest rate, but which actually reduces the principal that must be borrowed. (This mechanism is easier to administer and is less costly than traditional government subsidies that make annual payments to borrowers or to lenders.) Second, private lenders have been directly involved in financing the government-sponsored rehabilitation effort and have provided an average of 80 percent of the funds required for each rehabilitation project. Third, banks participating in the program make loans under Title I.

The Hoboken rehabilitation program is a successful private-public effort. Since 1972, there have been more than 600 Title I loans processed by local lending institutions, and there have been no defaults.

With the advent of CDBG funding in 1974, other localities have adopted the Principal Reduction Payments model for their local rehabilitation efforts. Among these localities are Westchester County and Long Island, New York, where local banks have voluntarily dropped their

program which it offers to local public agencies. The approach uses CDBG funds to bring Title I interest rate on loans from a market level down to the rate (usually from 3 to 6 percent) established by local programs. Th bank has lowered its rate of return to 11 percent, which reduces the payments needed from public funds to create a lower effective rate to borrowers.

As in the Principal Reduction system, payments by pu lic agencies to cover the interest subsidy are made in lump sum when the loan is committed. This approach requires from 40 to 60 percent fewer CDBG dollars pe loan than does the periodic payment of a subsidy throughout the loan term. The bank receives the CDBG funds directly. If property owners repay the loan before the due date, the bank reimburses the CDBG agency for a portion of the public payment.

Thirty-two local public agencies are working with the Security Pacific Bank's Interest Subsidy program. As o June 30, 1978, 1,150 loans had been processed involv ing $9.6 million in bank funds. This volume is accelerat ing as local agencies refer more applications from the CDBG target areas.

In the Minnesota program, 14,500 loans with a total value of $46 million have been made to local property owners for rehabilitation purposes since 1975. The MHFA approach is being adopted, with modification, by a number of other State agencies and by at least one municipal redevelopment agency.

These approaches for the use of Title I loans in conjunction with public funds for property rehabilitation are described in greater detail in *Title I Insured Property Improvement Loans as a Financing Tool for Public Rehabilitation Programs: Case Studies.*

1. [ ] National Bank
2. [ ] State Bank
4. [ ] Savings & Loan Association
5. [ ] State Chartered Credit Union
7. [ ] Other ______________________
(Specify)
____

3. Date Organized

4. Incorporated under laws of:

5. Member of:

[ ] Federal Deposit Insurance Corporation
[ ] Federal Home Loan Bank System
[ ] Federal Reserve System
[ ] Federal Savings & Loan Insurance Corporation

If not a member of the stated, we are under the supervision of:
____
____

6. Trading Radius within which loans will be originated or serviced *(maximum mileage from your lending office)*

7. List Branch Offices originating or servicing these loans *(State which)*

8. We propose to: *(Check one or both)*

[ ] Make loans direct to Borrower
[ ] Purchase notes from Dealer

9. We propose to: *(Check one or both)*

[ ] Hold notes for our own account
[ ] Sell notes to: ______________________
____
____

10. Our main office telephone No. *(area code, number, extension)*

11.

[ ] PLACE OUR NAME ON THE FHA PROPERTY IMPROVEMENT LOAN MAILING LIST.

Signature

BY:

Title of Officer

Address of Institution *(Number & Street)*

City, State and Zip Code

(SEE REVERSE SIDE FOR REQUIRED EXHIBITS)

(d) A resume of the consumer credit lending experience of the officer to be in charge of making these loans.

(e) A copy of our most recent financial statement (not over 6 months old).

(f) A copy of the note form we propose to use on Title I loans.

If your institution is not subject to federal or state supervision, the following exhibits are also required:

(g) A detailed audit of our books made by an independent accountant, not in our own employ, certified by an officer of our company, showing an acceptable corporate net worth.

(h) A letter or letters from banking institutions setting forth amount of credit available for FHA property improvement loan financing.

NOTE:

If notes will be sold give full details, to whom, on what basis or arrangements, and if written agreements have been executed, send two copies in each case as an additional exhibit.

Forward original application and required exhibits to the Director of the FHA Insuring Office for your area.

Marital Status: ☐ Married ☐ Separated	☐ Unmarried (Including Single, Divorced, Widowed.)	(Check Applicable Box) (1) ☐ American Indian or Alaska Native (2) ☐ Asian or Pacific Islander (3) ☐ Black, not of Hispanic origin (4) ☐ Hispanic (5) ☐ White, not of Hispanic origin (6) ☐ Other (specify)

Co-Applicant Name (If any)	Sex	Age	Home Phone:

Address (Street, City, State and ZIP Code):	How Long	Name and Address of nearest relative not living with you.	Relationship
Previous Address (Street, City, State and ZIP Code):	How Long		

Marital Status: ☐ Married ☐ Separated	☐ Unmarried (Including Single, Divorced, Widowed.)	(Check Applicable Box) (1) ☐ American Indian or Alaska Native (2) ☐ Asian or Pacific Islander (3) ☐ Black, not of Hispanic origin (4) ☐ Hispanic (5) ☐ White, not of Hispanic origin (6) ☐ Other (specify)

The information concerning minority group categories, sex, marital status, and age is required for statistical purposes so the Department may determine the degree to which its programs are being utilized by minority families and for other evaluation studies.

5. EMPLOYMENT AND SALARIES: *(If applicant is self employed, submit current financial statement.)*

Employer Name and Business Address:	Type of Work or Position:	No. of Years:	Business Phone:	Salary (Week/Month):
				$ per
Previous Employer Name and Business Address:				
Co-Applicant's Employer Name and Business Address:	Type of Work or Position:	No. of Years:	Business Phone:	Salary (Week/Month):
				$ per
Other Income Sources: *(Note: Income from alimony, child support, or separate maintenance income need not be shown unless you will rely upon it as a basis for undertaking or repaying this loan.)*				Amount (Week/Month): $ per

6. BANK ACCOUNT:

☐ Yes ☐ No ☐ Checking ☐ Savings	Name and Address of Bank or Branch:

7. CREDIT ACCOUNTS: (Give name and address of finance companies or stores which have extended credit and which you have paid in full.)

a.	b.
c.	d.

8. DEBTS: List all fixed obligations, installment accounts, FHA loans, and debts to banks, finance companies, and Government agencies.
(If more space is needed, list all additional debts on attached sheets.)

FHA INS. Yes	FHA INS. No	To Whom Indebted (Name)	City and State	Date Incurred	Original Amount	Present Balance	Monthly Payments	Amount Past Due
		Mortgage/Contract			$	$	$	$
					$	$	$	$
					$	$	$	$
					$	$	$	$
					$	$	$	$
AUTO	Lien Holder:			Year and Make:		$	$	$
AUTO	Lien Holder:			Year and Make:		$	$	$

10 PROCEEDS OF THIS LOAN WILL BE USED TO IMPROVE THE DESCRIBED PROPERTY AS FOLLOWS

Describe each improvement planned	Name and Address of Contractor/Dealer	Estimated Cost
		$
		$
		$
		$
		$

WARNING
Any person who knowingly makes a false statement or a misrepresentation in this application or causes such a false statement or misrepresentation to be made shall be subject to a fine of not more than $5000 or by imprisonment for not more than 2 years, or both, under provisions of the United States Criminal Code.

IMPORTANT - APPLICANT READ BEFORE SIGNING

The selection of a Contractor or Dealer, acceptance of materials used, and work performed is your responsibility. Neither the HUD-FHA nor the Financial Institution guarantees the material or workmanship or inspects the work performed.
I (We) certify that the above statements are true, accurate, and complete to the best of my (our) knowledge and belief. This application shall remain the property of the Lending Institution to which submitted for the purpose of obtaining a loan.
I (We) hereby consent to and authorize the Lending Institution or the HUD-FHA, after the giving of reasonable notice, to enter the improved property for the purpose of determining that the improvements specified in this application have been completed.

Name ______________________ (LS) Name ______________________ (LS)
(Applicant) (Co-Applicant)

NOTE TO SALESPERSON: If proceeds will be disbursed to the Contractor/Dealer, the person(s) selling the above described improvements must sign the following certification

I (We) certify that: 1) I (We) am (are) the person(s) who sold the job. 2) The Contract contains the whole agreement with the borrower. 3) The borrower has not been given or promised a cash payment or rebate nor has it been represented to the borrower that he or she will receive a cash bonus or commission on future sales as an inducement for the consummation of this transaction, that the improvements have not been misrepresented; no promises impossible of attainment, no encouragement of trial purchase; no promise that the improvements will be used as a model for advertising or other demonstration purposes, and no offer of debt consolidation.

(LS) Name ______________________
(My true name and signature are as shown above)

If application is prepared by one other than the applicant, the person preparing the application must sign below.
I (We) certify that the statements made herein are based upon information given to me (us) by the borrower(s) and are accurate to the best of my (our) knowledge and belief.

Prepared By: ______________________ Address: ______________________

Representing: ______________________

(Reserved for use of Lending Institution):

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